

Productivity Commission submission on GST

Introduction

This submission is presented from the viewpoint of an interested citizen who feels part of the silent majority. I lack detailed knowledge of any of the processes involved in the collection and distribution of the GST, and consequently statements made may suffer from accuracy.

Summary

I believe the current formula used to calculate the distribution is affecting the productivity of the state of Western Australia and the nation. In the future it has the potential to reduce the productivity of the nation and states with the opportunity to increase their productivity.

Discussion

1. Several arguments were used to convince voters to support GST including:
 - a. That it would remove inefficient taxes and replace them with an all inclusive efficient tax;
 - b. That no state would be worse off under the new arrangements.
2. At no stage during the debate on the introduction of GST was it indicated that it would be part of the Grants Commission activities and potentially be distributed to other states.
3. For many years Western Australia was regarded as a mendicant state because the Grants Commission distributed revenue from the other states to support Western Australia. This was to balance the revenue opportunities that existed when the federation was created, and was a political decision to encourage Western Australia to join and remain with the federation.
4. In the 1960s there was a drive by Western Australian politicians to remove the state from the limitations of the Grant Commission funding by encouraging development. This development has become some of the most efficient mineral providers in the world, yet the state is apparently being penalised for its efforts.
5. That has now resulted in the perverse result that the state has generated huge streams of revenue and has less financial flexibility and revenue than existed in the 1960s.
6. The formula used by the Grants Commission is opaque to me, and I suspect to all but specialists in the area. The concept of Horizontal Fiscal Equalisation was applied when Western Australia was the recipient of annual grants, yet it did not appear to provide the per capita revenue to Western Australia that the formula now gives to other states.

If the original reasons given before the introduction of the GST are accurate – that it was to replace inefficient taxes – then the current formula appears to be bending the will of federal parliament when states successfully raise their productivity and revenue.

7. It is claimed that state revenue from gambling is not counted as income to that state, leading to a distortion of economic activity. Several consequences flow from this decision:
 - a. States maximise revenue from this source;
 - b. States that minimise revenue from gambling are penalised;
 - c. Gambling is known to create social problems and the solution to social problems is largely funded by the federal government. This means the states encouraging gambling do not have to pay for the consequences of that decision.
8. Tasmania has made several decisions against development in favour of tourism, based on a belief that tourism would generate greater revenue for that state. The passage of time has shown that decision to be incorrect, and since the original decisions, additional decisions have been made to limit the number of tourists to certain sites to preserve those sites, again limiting revenue.

The question has to be asked why Tasmania should be reimbursed in perpetuity for the consequences of those decisions, especially as they those decisions have limited the productivity of Tasmania.

9. When states are dependent on an opaque formula for the distribution of funds the productivity of that state is moved from the state administration, and indirectly the electors, to unknown bureaucrats. This removes accountability for state productivity from the political environment and distorts the effectiveness of representational government.
10. For better productivity within the desires of each states electors the HFE formula needs to recognise:
 - a. Elected governments need to make decisions that they believe reflect the majority of the electors and therefore not all states desire the same standard of services, even if that results in some perception of inequality;
 - b. That the distribution of funds should be for a base level of services only, which will result in those states benefitting from development an increase in productivity will change their relative positions with other states for a period of time until another cycle benefits someone else.

A J Downing